

Time to Buy a Home?

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Newlyweds Aaron and Tal Chaiken were planning to buy an apartment at some point. They were ready to stay in Chicago for at least five years, and hoped their good credit and income from Ms. Chaiken's new job as a lawyer could help them land a mortgage.

So when their landlord told them last fall that they were in for a rent increase, it was time to take the plunge. Low interest rates and a feeling that housing prices were going up also played into the decision. The couple had a condo in contract just two weeks after starting their search.

In the end, their monthly payment on a standard 30-year mortgage is just slightly higher than their old rent. And the space is larger. "You're building equity when you have a mortgage. And we really don't like moving," says Mr. Chaiken, a 26-year-old master's in business administration student.

The time may be ideal for young, first-time home buyers like the Chaikens to snag a deal, experts say. But before going house hunting, younger buyers need to figure out if buying actually works with their timeline and if they'll qualify for a mortgage with today's tighter lending standards.

Home prices have finally started to recover in many areas, though they are still low enough to get a deal in many places. And after a period of across-the-board declines, once again "housing markets are very local phenomena," says Stan Humphries, chief economist at real-estate firm Zillow. According to the Standard & Poor's/Case-Shiller index, home prices in October 2012 ranged from down 1.3% in the Chicago area to up 21.7% in the Phoenix area from a year earlier.

Interest rates are hovering around historic lows. Meanwhile, renting—the option for many 20-somethings—is getting more expensive.

While conditions may be right for many first-time home buyers, this doesn't mean buying is the best choice for all young professionals. One of the most important things to consider is the amount of time you expect to stay in a home. It typically takes a few years before buying becomes cheaper than renting overall, in large part because of closing costs, says Mr. Humphries. Since many young people are more mobile as they try to advance their careers, buying may not be the best choice, he says.

"It's expensive to get in, down payments being what they are, closing costs being what they are," says Keith Gumbinger, vice president at data provider HSH.com.

The length of time you need to stay in a home for buying to be cheaper than renting differs by area, says Mr. Humphries. In the Denver area, for instance, it takes about three years for buying to pay off, according to Zillow.

You can do a rough calculation. For the time period you expect to stay in the home, add up estimated rent payments, factoring in the rate at which rents are rising in your area, and compare that to projected mortgage payments, plus closing costs, a down payment and selling costs.

Another challenge: Your financials. "The three things any bank looks for: credit history, income and down payment," says John Prom, a mortgage banker in New York. Documentation standards have tightened considerably since 2007, and it's tougher overall to qualify for a loan.

If you have a limited credit history, a few months of on-time payments on a credit card or loan, including a student loan and auto loan, will typically lead to having a passable FICO credit score, he says. Mr. Prom adds that for borrowers who don't yet have a score, he will ask for evidence of two years of on-time payments on rent or other bills, such as cable and utilities.

If you have less than two straight years of income, you may have to do some legwork. The Chaikens began their home search before Ms. Chaiken, 24, started her job—so all they had to attest to income was an offer letter from the law firm. A number of banks turned them down because of this, but they eventually found an independent lender that approved them.

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